The Common Message

May Revision 2017

BASC
Business and Administration Steering Committee
CCSESA

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Sources

Association of California School Administrators
Bob Blattner and Associates
Bob Canavan, Federal Management Strategies
California Association of School Business Officials
California Collaborative for Educational Excellence
California Department of Education
California Department of Finance
California State Board of Education
California School Boards Association
California School Information Services
Capitol Advisors
Fiscal Crisis and Management Assistance Team
Jeff Frost; Frost, Davis, and Donnelly
K-12 High Speed Network
Michael Hulsizer, BASC Liaison & Kern County Superintendent of Schools
National Forest Counties and Schools Coalition
School Services of California
Schools for Sound Finance (SF2)
Small School Districts' Association
Statewide LEC Co-chairs
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Background

Since May 2008, county office chief business officials have crafted common messages to give guidance to school districts on assumptions for budget and interim reports. The goal of the Business and Administration Steering Committee (BASC) is to provide county office chief business officials with a consistent message that can be used in providing this guidance to school districts.

The BASC would like to thank the state Department of Finance (DOF), the State Board of Education, the California Department of Education (CDE) and the Fiscal Crisis and Management Assistance Team, as well as our colleagues in education listed in the sources section for providing BASC and our local educational agencies (LEAs) the most up-to-date information at the time of the Common Message writing.

Purpose: The BASC Common Message is intended as guidance and recommendations to county offices of education. Each COE will tailor the guidance to the unique circumstances of the LEAs located in their county. Even within a county, COE situational guidance may vary considerably based on the educational, fiscal and operational characteristics of a particular district. Districts and other entities seeking to understand the guidance applicable to a particular LEA should refer to the information released by the COE in the county where the LEA is located.

Introduction

This edition of the Common Message contains information related to the Governor's May Revision for 2017 and is intended to provide guidance for LEAs to use in developing their 2017-18 budget and their multiyear projections (MYPs).

May Revision Key Guidance

Governor Brown's May Revision budget proposal projects an increase in overall state revenues in 2017-18 due to "a surging stock market." Nonetheless, the Governor cautioned that the trend of increasing revenues would not continue indefinitely. He noted that a modest recession would result in large decreases in state revenues, and that proposed changes to the Affordable Care Act could have a significant negative impact on California. "Make no doubt about it," he added, "cuts are coming over the next few years."

While the May Revision increases education funding over the January proposal, LEAs would do well to heed the Governor's warnings to be cautious. The historical volatility of state revenues, the significant economic risks on the horizon, and the known cost pressures from employer pension contribution increases all point to the need to maintain reserves and fiscal flexibility. LEAs should not make spending commitments now based on projected revenues in the out years.

A significant portion of the new revenue in the May Revision is dedicated to one-time funding, but the nature of the current one-time funding proposal is dramatically different from the January proposal, and from the one-time funds in past budgets. The one-time funding, though scored against the 2017-18 Prop. 98 guarantee, is proposed to be paid to LEAs in May 2019, if and only if the final 2017-18 Prop. 98 minimum guarantee is determined by the DOF to be greater than or equal to the 2017-18 projection. This contingency language means that LEAs will not know how much of this funding they will actually receive until May 2019 when the DOF determines the 2017-18 Prop. 98 guarantee based on general fund revenue collections to date. Consequently, LEAs should not budget these one-time funds for 2017-18, and the funds should not be included in the MYP unless the LEA can present a clear ability to do without the revenue if it doesn't materialize.

Significant Changes since 2nd Interim

- **LCFF Gap Funding:** Increases LCFF funding $661 million above the January budget to fund the 1.56% COLA and brings LCFF funding to 97% of the target.

- **One-time Funding:** The $48 proposed in January has been eliminated. Instead, the May Revision provides a total of more than $1 billion in one-time discretionary funding to be paid in May 2019 only if 2017-18 revenue projections are met.

- **Proposition 98 Maintenance Factor**: Triggers a Prop. 98 maintenance factor payment of $614 million in 2017-18, thus reducing the outstanding maintenance factor balance to $823 million.

- **Cost-of-Living Adjustments**: Increases Prop. 98 spending by $3.2 million in selected categorical programs for 2017-18 to reflect a change in the cost-of-living factor from 1.48% at the Governor's Budget to 1.56% at the May Revision.

- **Special Education**: In January, the Governor announced the Administration would engage stakeholders throughout the spring budget process for feedback on the current special education finance system and the recommendations included in recent evaluations of special education finance conducted by the Public Policy Institute of California and the Governor's Statewide Special Education Task Force. The May Revision states that "given the scope of the feedback and complexity of the program, the administration will need additional time to examine the issues before making any reform proposals."

- **Preschool**: Proposes to add $112.3 million in Prop. 98 funding resulting in the following enhancements in the budget year:
  - 2,959 additional full-day State Preschool slots.
  - Restore the full 10% reimbursement rate increase made in the 2016-17 budget.
  - Increase to the standard reimbursement rate for State Preschool by 6%.

- **Local Property Tax Adjustments**: Due to lower offsetting local property tax collections, the general fund contribution to Prop. 98 increases by $188.7 million in 2016-17 and $327.9 million in 2017-18.

- **Average Daily Attendance (ADA)**: Increases of $26.2 million in 2016-17 and $74.1 million in 2017-18 for school districts, charter schools, and county offices of education under the LCFF as a result of changes in enrollment projections from January.

- **Proposition 39**: Decreases the amount of energy efficiency funds available to K-12 schools in 2017-18 by $46.7 million to $376.2 million to reflect reduced revenue estimates.

- **Categorical Program Growth**: Increases Prop. 98 spending for selected categorical programs by $3.2 million, based on updated estimates of projected ADA growth.

Planning Factors for 2017-18 and MYPs

Key planning factors for LEAs to incorporate into the 2017-18 budget and MYPs are listed below and are based on the latest information available.

Planning Factor	2017-18	2018-19	2019-20
COLA (Dept. of Finance – DOF)	1.56%	2.15%	2.35%
LCFF Gap Funding Percentage (DOF)	43.97%	71.53%	73.51%
LCFF Gap Funding (in millions)	$1,387	$2,015	$1,472
STRS Employer Statutory Rates	14.43%	16.28%	18.13%
PERS Employer Projected Rates	15.531%	18.10%	20.80%
Lottery – Unrestricted per ADA	$144	$144	$144
Lottery – Prop. 20 per ADA	$45	$45	$45
Mandated Cost per ADA for One-Time	$0	Refer to pg. 9	$0
Mandate Block Grant for Districts – K-8 per	$28.42	$28.42	$28.42

Mandate Block Grant for Districts – 9-12 per	$56	$56	$56
Mandate Block Grant for Charters – K-8 per	$14.21	$14.21	$14.21
Mandate Block Grant for Charters – 9-12 per ADA	$42	$42	$42
State Preschool Part-Day Daily Reimbursement Rate	$28.32	$28.32	$28.32
State Preschool Full-Day Daily Reimbursement Rate	$45.73	$45.73	$45.73
General Child Care Daily Reimbursement Rate	$45.44	$45.44	$45.44
Routine Restricted Maintenance Account (Note: for LEA receiving SFB funds, the RRMA requirement revers to 3% the year following receipt of funds)	Greater of: Lesser of 3% or 2014-15 amount or 2%	Greater of: Lesser of 3% or 2014-15 amount or 2%	Greater of: Lesser of 3% or 2014-15 amount or 2%

Proposition 98

Governor Brown's May Revision includes a revenue projection for the 2017-18 year that has improved relative to that provided with his January budget proposal. The Prop. 98 guarantee for 2017-18 is now projected at $74.6 billion, a $1.1 billion increase over the January amount. This projected increase is included despite the current year estimate of Prop. 98 guarantee remaining flat at $71.1 billion, reflecting modest revenue collections in the current year. This increased revenue projection also allows the Governor to eliminate the one-time June 2017 cash deferral proposed in January.

However, the Governor proposes to suspend Test 3B of Prop. 98 for the 2016-17 year, as well as 2018-19 through 2020-21. Under Test 3B, school funding would grow at the same rate as the rest of the state budget in years where economic growth is slower. This suspension is intended to avoid appropriation above the minimum of Prop. 98 in coming years, as the Governor warns that future general fund revenue growth is increasingly dependent on volatile capital gains collections. Any funding reduced by this suspension would be added to the maintenance factor obligation, which would restore funding levels beyond the years of Test 3B suspension.

The revenue proposal also creates maintenance factor repayment in the 2017-18 year of $614 million, reducing the outstanding balance to $823 million.

One Time Funding

The Governor has proposed to increase the unrestricted one-time per ADA funds included in the January budget, from $48 to $170 per ADA to be paid in May 2019 to avoid the possibility of appropriation of Prop. 98 over the minimum.

The DOF has confirmed that the one-time $1.012 billion discretionary funding proposed by the governor at May Revision will not be paid until May 2019, and only if the 2017-18 Prop. 98

minimum guarantee is determined by the DOF to be greater than or equal to the amount in the 2017-18 final budget. If the DOF determines that the guarantee has dropped and Prop. 98 is appropriated over the minimum, the necessary reduction will be taken from the $1.012 billion.

Based on this information, it is recommended districts not include any of these one-time funds in their budgets. If included in the 2018-19 MYP, it would be necessary to include contingency plans should the funds not materialize.

Cash Management

The Governor's 2017-18 May Revision eliminates the one-time $859.1 million deferral from 2016-17 to 2017-18 that was included in the Governor's 2017-18 January Budget Proposal. LEAs may now assume that 100% of their June 2017 principal apportionment payments will be received by June 30, 2017. Even though the deferrals have been eliminated, many LEAs are still experiencing unrestricted general fund deficit spending that puts pressure on cash balances. Maintaining cash flow projections for the current fiscal year and at least one subsequent fiscal year is recommended.

The State Controller's Office posts the estimated payment dates for K-12 principal apportionments, lottery apportionments, and Education Protection Account Prop. 30 apportionments. The table below illustrates state apportionments through December 2017.

Months	Principal Apportionment	Prop. 30 Education Protection Account (EPA)	Lottery
May 2017	5/26/2017		
June 2017	6/30/2017	6/22/2017	6/28/2017
July 2017	7/27/2017		
August 2017	8/29/2017		
September 2017	9/27/2017	9/22/2017	9/29/2017
October 2017	10/27/2017		
November 2017	11/28/2017		
December 2017	12/27/2017	12/22/2017	12/29/2017

The CDE provides a monthly update of estimated cash flow for state and federal categorical programs that can be downloaded from the following webpage: http://www.cde.ca.gov/fg/aa/ca/estcashflow.asp. The schedule provides cash flow estimates for the following programs: Mandate Block Grant, one-time mandate reimbursements, Adult Education Block Grant, College Readiness Block Grant, and Mental Health.

Please note that federal apportionments are contingent on timely reporting under CDE's Federal Cash Management Data Collection system: http://www2.cde.ca.gov/cashmanagement/default.aspx. The 2016-17 reporting windows are as follows:

- Reporting Period 1: July 10 – July 31
- Reporting Period 2: October 10 – October 31
- Reporting Period 3: January 10 – January 31
- Reporting Period 4: April 10 – April 30

Education Protection Account (EPA)

The DOF estimates 2017-18 Prop. 30 revenues for deposit to the EPA will be $7.3 billion. LEAs are statutorily required to have their governing boards adopt a plan for how the funds will be spent (usually part of budget adoption), post data on their websites on how the funds were spent in the previous year, and provide their EPA expenditure data to their external auditors.

The CDE posts information, frequently asked questions, and entitlement details on its website at (http://www.cde.ca.gov/fg/aa/pa/epa.asp).

Reminder: Prop. 55 takes effect January 1, 2018. Income taxes generated by Prop. 55 will be deposited into the EPA for distribution to LEAs. The statutory reporting requirements of Prop. 30 mentioned above will carry forward under Prop. 55.

Federal Funding

The 115th Congress and the Trump Administration began work in January. Since the Governor's January Proposed Budget, Congress completed legislation to fund federal government operations through September 30, 2017. The Administration has signaled that there may be changes in funding priorities, but no shifts have been detailed or finalized at this point.

Regarding state distribution of federal funds, it is important to reference a letter CDE sent to district superintendents on January 18, 2017 pertaining to the Every Student Succeeds Act (ESSA) and the mandatory set-aside for school improvement.

Regarding Title I, CDE states in the letter that without factoring in entitlement changes based on census data, some LEAs could see reductions of 12% to 22% due to the increased set-aside and factoring in hold-harmless.

With respect to Title II, some districts may experience large increases and others may experience large decreases due to redistribution of funds previously tied to the hold-harmless provision.

The CDE letter can be found at: http://www.cde.ca.gov/re/es/letter18jan17.asp.

Special Education

A 1.56% COLA was funded for special education base programs. The Governor's May Revision includes a summary of actions taken by the DOF as a result of the Governor's Budget and the Administration's desire to solicit stakeholder feedback on recent reports on special education finance. The May Revision states that "given the scope of the feedback and the complexity of this program area, the Administration will spend additional time in the coming months examining these issues to chart a path forward that will maximize resources to serve students while increasing transparency and accountability."

Necessary Small Schools (NSS)

EC Section 42285(4)(b)(3), which establishes eligibility for NSS funding for a high school that is less than 287 students, is the only comprehensive high school in a unified district and has 50 or fewer pupils per square mile of the school district territory, sunsets July 1, 2017. EC Section 42280 allows NSS funding based on prior year eligibility, so schools impacted by the sunset provision can expect to receive NSS funding in 2017-18 if they met the funding requirements in 2016-17. At this time high schools receiving NSS funding based on this education code should not plan on NSS funding effective 2018-19.

Child Care, Preschool and Transitional Kindergarten

As a result of the lower than expected general fund revenue growth projected at that time, the January budget proposed pausing increased provider reimbursement rates and additional 2,959 full-day State Preschool slots available on April 1, 2018. Due to modest general fund revenue increases since then, the May Revision proposes fully restoring this funding. The proposal restores the 10% increase (5% annualized) for 2016-17 and provides an increase of 6% for 2017-18.

Significant Adjustments:

- Standard Reimbursement Rate — An increase of $67.6 million general fund ($43.7 million Prop. 98, $23.9 million non-Prop. 98) to increase the reimbursement rate to the full 10% increase made in the 2016 Budget Act. An additional increase of $92.7 million general fund ($60.7 million Prop. 98, $32 million non-Prop. 98) to provide a 6% increase to the reimbursement rate for State Preschool and other direct-contracted child care and development providers, beginning July 1, 2017. The new rate is $45.44 per student, per day ($11,360 per student, per year).

- Regional Market Reimbursement Rate — An increase of $42.2 million general fund to increase the maximum reimbursement ceiling for voucher–based child care providers to the 75th percentile of the 2016 survey, beginning January 1, 2018.

- Full‑Day State Preschool — An increase of $7.9 million Prop. 98 for an additional 2,959 slots.

  - Part-day Slots: $28.32 per student, per day ($4,956 per student, annually)

  - Full-day Slots: $45.73 per student, per day ($11,432.50 per student, annually)

- CalWORKs Stage 2 — A decrease of $18.1 million non‑Prop. 98 general fund in 2017‑18 to reflect revised estimates for CalWORKs Stage 2 caseload and the cost per case.

- CalWORKs Stage 3 — A decrease of $12.8 million non‑Prop. 98 general fund in 2017‑18 to reflect revised estimates for CalWORKs Stage 3 caseload and cost per case.

The governor's May Revision maintains proposed program flexibilities. Specifically, the budget trailer bill language proposes the following modifications:

- Authorizes the use of electronic applications for child care subsidies.

- Allows children with exceptional needs whose families exceed income eligibility guidelines access to part-day state preschool if all other eligible children have been served. This allows part-day state preschool providers the flexibility to fill unused slots with other students who would benefit from early intervention or education.

- Aligns the state's definition of homelessness with the federal McKinney-Vento Act for purposes of child care eligibility. Many providers receive both federal and state funds, and different definitions of homelessness can be confusing.

- Commencing July 1, 2018, eliminates the Community Care Licensing requirements as set forth in the Title 22 regulations for state preschool programs utilizing facilities that meet transitional kindergarten facility standards, specifically K-12 public school buildings. The CDE is being asked to conduct all the necessary changes and issuance of management bulletins prior to July 1, 2018. By providing the flexibility to use Field Act-approved facilities, LEA state preschool providers may be able to take up expansion slots by avoiding the delays in obtaining a licensing permit.

- Allows state preschool programs flexibility in meeting minimum adult-to-student ratios and teacher education requirements, allowing for alignment with similar transitional kindergarten requirements. LEAs would be authorized to meet this ratio in one of three ways:
    - Classroom led by a permitted teacher, with a 1:8 adult-to-child ratio, a 1:24 teacher-to-child ratio, and a maximum group size of 24 students (current law).
    - If a state preschool provider opts to use a credentialed teacher (rather than a permitted teacher), the program can utilize a 2:24 ratio model, for example, in which one teacher is credentialed and is authorized to provide instruction in transitional kindergarten classroom and meets the TK teaching requirements (24 units of early childhood education credits or the equivalent as determined by the school district), and supported by an aide or permitted teacher. The maximum group size is 24 students.
    - For programs participating in the Quality Rating and Improvement System with rankings of 4 or higher, the program would not be subject to adult-to-student ratios beyond what is required to maintain a Tier 4 or higher rating.
- Authorizes school districts to operate kindergarten or transitional kindergarten classes for different lengths of time during the school day, either at the same or a different school site, without having to seek a waiver from the State Board of Education to deliver a transitional kindergarten program that has different instructional minutes from kindergarten programs.

Career Technical Education

Updated Grant Award Notifications (GANs) were distributed to LEAs in October 2016. The new award letter extends the use of Round One funding to June 30, 2019. Anyone who did not receive an updated Round One GAN should contact their assigned CDE education programs consultant. GANs for Round Two funding are being sent to LEAs starting May 12, 2017.

If an LEA’s final award amount has changed, it is required to provide matching funds based on this new amount. It is critical to remember that the LEA’s funding contribution increases over the course of the grant.

Round	Grant Term	Grant Amount	LEA Match
1	July 1, 2015 to June 30, 2019	$400 million	1-to-1
2	July 1, 2016 to June 30, 2019	$300 million	1.5-to-1
3	July 1, 2017 to June 30, 2019	$200 million	2-to-1

In his 2017-18 State Budget released earlier in the year, Governor Brown proposed the complete elimination of funding for the Future Farmers of America program and other programs in Career Technical Education (CTE) serving students throughout California. Also included in these cuts are the elimination of the Partnership Academy Program, the University of California Curriculum Institute for recognizing CTE courses for admission purposes, and professional development activities for CTE instructors.

These programs have been funded by $15 million in CTE Pathways monies that were provided to the CDE for supporting statewide CTE activities and programs. The Governor's proposal for this year would eliminate this source of funds, directing them instead to the Community College Chancellor's Office to supplement other workforce development funds already in existence.

Retirement

Since Second Interim guidance was issued, the CalPERS Board adopted final 2017-18 employer contribution rates and revised projected out-year rates. The new adopted/projected rates are as follows:

	PERS Adopted	**PERS Projected**						
Fiscal Year	**2017-18**	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Employer Rate	**15.53%**	18.10%	20.80%	23.80%	25.20%	26.10%	26.80%	27.30%

The May Revision included a proposed $6 billion state contribution to the CALPERS fund, but while this contribution is intended to reduce the state's future contributions to PERS, it will have no impact on LEA obligations.

CalSTRS rate projections are unchanged (see below), but the STRS Board's adoption of a lower discount rate could lead to higher rates after 2020-21.

STRS Rates Per Legislation				
Fiscal Year	2017-18	2018-19	2019-20	2020-21
STRS Employer Rate	14.43%	16.28%	18.13%	19.10%

Proposition 39

The May Revision proposes a final budget appropriation for the five-year Clean Energy Jobs Act program approved by voters in 2012 with the passage of Prop. 39.

Source site: http://www.energy.ca.gov/efficiency/proposition39/

- Current law requires LEAs to spend or encumber Prop. 39 K-12 program allocations by the statutory deadline of **June 30, 2018**

- To ensure encumbrance, the last date to submit energy expenditure plans to the Energy Commission is **August 1, 2017**

- **Per CDE, no contribution needed to Resource 6230 due to the apportionments crossing fiscal years; a negative ending fund balance is allowable with explanation in the technical checks** http://www.cde.ca.gov/fg/ac/ac/sacsminutes110215.asp

A revised 2016-17 entitlement schedule has been posted on the CDE Prop. 39 webpage at http://www.cde.ca.gov/fg/aa/ca/prop39cceja.asp.

The Proposition 39: California Clean Energy Jobs Act, K-12 Program and Energy Conservation Assistance Act 2015-2016 Progress Report is now available. This is the Energy Commission’s second progress report to the Citizens Oversight Board. The report covers the period from December 19, 2013, when the Proposition 39: California Clean Energy Jobs Act – Program Implementation Guidelines were approved, to June 30, 2016.

This report provides background on the Proposition 39: California Clean Energy Jobs Act K-12 Program and a summary of approved energy expenditure plans, completed projects, and projects soon to be completed, as reported by local educational agencies.

The report can be found here: http://www.energy.ca.gov/2017publications/CEC-400-2017-001/CEC-400-2017-001-CMF.pdf

Summary

As stated in the introduction, this edition of the Common Message contains information as proposed in the Governor's May Revision 2017 and provides guidance for LEAs to use in developing their 2017-18 budget and multiyear projections. Changes are likely to occur prior to finalization and adoption of the 2017-18 budget. It is imperative that LEAs stay well-informed, consider the impact of proposed and potential changes, both fiscal and programmatic, and adapt accordingly.